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Administrative and budgetary aspects of the financing of the United Nations peacekeeping operations

Report of the Board of Auditors on the accounts of the United Nations peacekeeping operations and report of the Secretary-General on the implementation of the recommendations of the Board of Auditors concerning United Nations peacekeeping operations for the financial period ended 30 June 2013

Report of the Advisory Committee on Administrative and Budgetary Questions

I. Introduction

1. The Advisory Committee on Administrative and Budgetary Questions has considered the report of the Board of Auditors on the accounts of the United Nations peacekeeping operations for the financial period ended 30 June 2013 (A/68/5 (Vol. II)), and its observations and recommendations thereon are contained in section II below. During its consideration of the report, the Committee met with the members of the Audit Operations Committee of the Board of Auditors, who provided additional information and clarification. The Committee also discussed the Board's findings with the representatives of the Secretary-General in the context of the related report of the Secretary-General on the implementation of the recommendations of the Board of Auditors (A/68/751). The representatives of the Secretary-General provided additional information and clarification, concluding with written responses received on 14 April 2014.

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II. Report of the Board of Auditors on the accounts of the United Nations peacekeeping operations for the financial period ended 30 June 2013

A. Scope of the audit

2. The Board of Auditors reviewed and audited the accounts of United Nations peacekeeping operations for the period ended 30 June 2013 through visits to United Nations Headquarters and 16 active field missions as well as an examination of the accounts of 29 completed missions and the four special purpose accounts, namely, the Peacekeeping Reserve Fund, the support account for peacekeeping operations, the United Nations Logistics Base at Brindisi, Italy, and the after-service health insurance programme for peacekeeping operations.

3. According to the Board, the audit was conducted in conformity with article VII of the Financial Regulations and Rules of the United Nations, as well as with the International Standards on Auditing. It further states that the audit was conducted primarily to enable the Board to form an opinion as to whether the financial statements fairly presented the financial position of the United Nations peacekeeping operations as at 30 June 2013 and the results of operations and cash flows for the financial period then ended, in accordance with the United Nations system accounting standards.

B. Audit opinion

4. In the Board's opinion, the financial statements present fairly, in all material respects, the financial position of the United Nations peacekeeping operations as at 30 June 2013 and the results of operations and cash flows for the year then ended, and have been properly prepared in accordance with the United Nations system accounting standards.

C. General observations

5. The Board concludes that the Administration has continued its efforts to address the concerns of the Board and to enhance financial control and management. In the Board's view, the implementation of the International Public Sector Accounting Standards (IPSAS), and the progress towards implementation of the new enterprise resource planning system (Umoja) and the global field support strategy present a major opportunity to improve the way in which United Nations peacekeeping operations are managed and backstopped. In the Board's view, in the interest of achieving enhanced accountability and delivery, the Administration needs to more clearly elaborate the new peacekeeping service delivery model supported by the three business transformation and other initiatives. The Board also stresses that the Administration should establish how the benefits will be measured and demonstrated (see A/68/5 (Vol. II), chap. II, summary).

6. **The Advisory Committee considers that the observations and recommendations of the Board provide valuable insights into the resource utilization and management of peacekeeping operations of the United Nations.**

The Committee draws on the Board's findings to inform its consideration of the respective budget proposals of the individual peacekeeping operations as well as on the cross-cutting issues arising throughout the peacekeeping missions.

D. Specific concerns of the Board of Auditors

7. In the summary of its report, the Board identifies its most pressing areas of concern as: (a) procurement capacity, particularly in terms of realizing further opportunities in achieving economies of scale; (b) the functioning of the Regional Procurement Office located in Entebbe; (c) budget formulation and management; and (d) project management of the global field support strategy.

Procurement capacity

8. The Board's observations and recommendations on procurement and contract management are contained in paragraphs 31 to 44 of its report. While noting the progress made by the Administration in response to its previous recommendations in certain areas of the acquisition planning process and in the alignment of acquisition planning with budget preparation, the Board highlights deficiencies in several other areas of the acquisition planning process. In particular, the Board refers to: (a) the lack of a comprehensive strategy to support consolidated procurement across different missions; (b) a non-standardized commodity coding; (c) poor acquisition descriptions, including the fact that insufficient details are provided by requisitioners to identify actual mission needs; and (d) a lack of monitoring of acquisition plan implementation.

9. The Board continues to identify weaknesses in the solicitation process and in contract and vendor management across missions. It notes several deficiencies, such as the lack of full transparency in the process of inviting vendors to solicitations, an unreliable vendor database and deficient performance evaluation of vendors. **Taking into consideration the detailed findings and observations of the Board with respect to procurement and contract management, the Advisory Committee concurs with the Board's recommendations on these issues.**

Regional Procurement Office

10. The Board's observations and recommendations on the Regional Procurement Office are contained in paragraphs 45 to 62 of its report. The Advisory Committee recalls that the Regional Procurement Office was established on 15 July 2010 as a pilot project by the Procurement Division to conduct procurement for missions within the region (see A/64/284/Add.1). The Board notes that the staffing of the Regional Procurement Office comprised two posts reassigned from Headquarters and funded under the support account and 22 posts funded from mission budgets. The Board further notes that two of the main objectives of the Office are to undertake cross-cutting regional procurement or joint acquisition plan procurement and to provide standby procurement capability for mission start-up or mission-specific procurement.

11. On the one hand, the Board comments positively on the strong commitment of the Administration in achieving the objectives of the Regional Procurement Office pilot, notably in providing backup procurement capability during the start-up of missions and training the local procurement staff. On the other hand, the Board

observes that opportunities for further improvements remain in areas such as governance, authorization and accountability, solicitation activities, and cost-benefit evaluation and reporting.

12. In the Board's view, progress on joint acquisition plan procurement has been limited by the fact that joint acquisition plan procurement contracts are not compulsory for the missions, and that some of these contracts contain less competitive prices than the contracts signed locally by the peacekeeping missions. In terms of mission-specific procurement, the Board notes the absence of a clear policy to distinguish between the types of procurement that should be performed at missions and at the Regional Procurement Office, resulting in the undermining of current procurement delegations of authority and blurred accountability for procurement activities (see A/68/5 (Vol. II), chap. II, summary).

13. The Advisory Committee was informed, upon enquiry, that the Regional Procurement Office operates as an integral part of the Procurement Division at Headquarters, and that authority is delegated to the Office from the Director of the Procurement Division. **In view of the detailed findings and observations of the Board on the Regional Procurement Office, the Committee concurs with the Board's recommendation that the role and nature of mission-specific procurement undertaken by the Office be explicitly defined. The Committee further recommends that the General Assembly request the Secretary-General to clarify the role of the Regional Procurement Office, subject to the outcome of its pilot phase, and the potential for its integration into the global service delivery model.**

14. The Board notes that the Secretary-General's report on United Nations procurement activities (A/67/683) of 26 December 2012, which included in annex III a detailed cost-benefit analysis of the Regional Procurement Office, overestimated the cost savings from the joint acquisition planning procurements by about $17 million (62 per cent). The Board specifically notes that this finding was first reported by the Office of Internal Oversight Services, and the error in the savings reported was revised from $28.3 million to $10.5 million in a corrigendum (A/67/683/Corr.2) issued by the Secretary-General on 10 October 2013. Upon enquiry, the Committee was informed that during an audit of procurement activities conducted by the Office of Internal Oversight Services at the Regional Procurement Office and following a comprehensive review, the revised figure for the savings was determined. **The Advisory Committee notes with concern that the Secretary-General reported inaccurate figures for the cost savings resulting from the procurement activities undertaken by the Regional Procurement Office, thus resulting in the consideration by the General Assembly of overestimated figures for cost savings attributable to the Regional Procurement Office. The Committee trusts that in the future, before reporting such costs and benefits to the General Assembly, the Secretary-General will make all possible efforts, including, if necessary, obtaining certification by the audit bodies, to ensure that precise and accurate figures are reported.**

Budget formulation and management

15. In the area of budget formulation and management the Board identifies, inter alia: (a) weaknesses in the methodology applied across the peacekeeping missions; (b) inconsistencies in budget assumptions; (c) deficiencies in the budget review

process, both at Headquarters and missions; and (d) frequent and widespread budget redeployments. The Board's observations and recommendations on budget formulation and management are contained in paragraphs 63 to 86 of its report.

16. With regard to the review of peacekeeping mission budgets performed at Headquarters, the Board notes that the roles and responsibilities across the Department of Peacekeeping Operations, the Department of Field Support and the Office of Programme Planning, Budget and Accounts, and among the Department of Field Support divisions, need to be clearly documented, especially in the context of the joint review initiated in the 2014/15 budget cycle, in addition to establishing a standard budget review process to facilitate a consistent approach by officers undertaking reviews of budget proposals. In respect of the review of peacekeeping mission budgets performed at the missions themselves, the Board notes lack of resources and expertise in the respective budget sections to deal with certain technical areas, combined with the absence of in-depth reviews of the budget by senior mission managers, owing to their involvement with other key mission priorities.

17. The Advisory Committee was informed by the representatives of the Secretary-General, upon enquiry, that the budget review process at Headquarters included a consistent review of the budget submissions coming from the peacekeeping missions, on the basis of which appropriate adjustments to proposed requirements were made. Further clarification of the specific responsibilities in the context of budget review by the representatives of the Department of Peacekeeping Operations, the Department of Field Support and the Office of Programme Planning, Budget and Accounts has since been made. Regarding the review of budgets at the peacekeeping missions themselves, the Committee was informed that each mission's operational requirements are driven by factors specific to its operation. The Committee was further informed that a Standard Cost and Ratio Manual containing a comprehensive list of technical specifications, pricing guidelines and ratios is used by the missions for both budget preparation and operational decision-making. Mission-specific requirements are also based on historical experience. (See related comments and observations of the Advisory Committee in its report on cross-cutting issues related to peacekeeping operations, A/68/782.)

18. **The Advisory Committee concurs with the Board's recommendations on the formulation and review of peacekeeping budgets and trusts that the Administration will take active measures to ensure improvements in this regard.**

19. The Board further notes the high values and frequency of budget redeployments between groups and classes in 2012/13. The Board indicates that a total of $105 million was redeployed between groups for 2012/13 compared with $103 million in 2010/11, and overall, 33 per cent of classes had redeployments in 2012/13 compared to 25 per cent in 2010/11 (see A/68/5 (Vol. II), para. 80). In that context, the Board observes, inter alia, that the Department of Field Support requested all missions to redeploy funds totalling $15 million from the field cost centres to the Department's Information and Communications Technology Division, to cover non-budgeted costs for the implementation of IPSAS and Umoja. The Advisory Committee was informed, upon enquiry, that the full range of requirements of the enterprise resource planning system were not known at the time of budget formulation, and later, considering that the required equipment and systems upgrades would directly benefit the readiness of field missions in deploying

the systems, the redeployment was requested by the Department of Field Support at Headquarters. **The Advisory Committee notes that the redeployment of funds amounting to $15 million from the peacekeeping missions to the Headquarters cost centre represents additional project costs related to the implementation of the enterprise resource planning system and IPSAS.** Detailed comments and recommendations of the Committee on the distribution of the costs related to the implementation of the enterprise resource planning system will be contained in its report on cross-cutting issues related to peacekeeping operations (A/68/782).

Project management of the global field support strategy

20. The Board's observations and recommendations on the implementation of the global field support strategy are contained in paragraphs 133 to 210 of its report. The Board notes the efforts made by the Administration to address the Board's concerns and the progress made under each of the four pillars of the global field support strategy. Some of the key areas in which progress is noted by the Board are: the Global Service Centre providing technical inputs remotely with embedded staff, eliminating unnecessary exposure to the security threats in the field; refining of the standard funding model on the basis of a comprehensive assessment; and the Global Service Centre and the Logistics Support Division collaborating on the development of a supply chain management policy (see A/68/5 (Vol. II), chap. II, table II.3).

21. The Board continues to make several general, cross-pillar and specific comments and recommendations on the global field support strategy. The Board notes deficiencies such as: (a) the lack of an end-state vision for each pillar, owing to which the Board found it difficult to make an assessment of the progress made towards the envisaged objectives; (b) weaknesses in the governance of the modularization project; (c) critical risks missing from the risk management framework of the global field support strategy, developed in May 2013; and (d) the lack of clarity in the linkage between strategic and operational and transactional key performance indicators of the performance management framework, developed by the Administration to measure progress in the implementation of the four pillars of the global field support strategy.

22. The Advisory Committee will include its detailed comments and observations on the implementation of the global field support strategy in its report on cross-cutting issues related to peacekeeping operations (A/68/782).

E. Other main observations and recommendations of the Board of Auditors

Implementation of the International Public Sector Accounting Standards

23. In paragraph 15 of its report, the Board notes good progress in preparing the opening balances, improving project monitoring and providing greater clarity on the accountability of senior managers in field missions for IPSAS implementation. However, the Board draws the attention of the Administration to the areas where further work is required, notably, on the need to: (a) agree on an appropriate accounting treatment for the inventories held at peacekeeping missions; (b) subject the estimated valuations of the cost of self-constructed assets to robust validation; (c) review those assets that are still in use but have been fully depreciated to a zero book value as well as to conduct an impairment review of assets; and (d) develop

uniform IPSAS guidance applicable to peacekeeping missions. **The Advisory Committee trusts that the Administration will take into account the outstanding tasks noted by the Board of Auditors in ensuring a successful implementation of IPSAS.**

Asset management

24. The Board's observations and recommendations on asset management are contained in paragraphs 17 to 30 of its report. The Board notes strengthened management of property with improvement apparent in several important areas such as increased percentages of verified non-expendable and expendable property, as well as a reduced proportion of non-expendable property in the "not found yet" category. However, in the Board's view, some deficiencies in asset management remain, such as unused non-expendable property of a significant value, delayed disposal processes of assets, improper trans-shipment of assets from liquidated missions, and deficiencies in the management of sensitive military assets.

25. The Board notes that as at 30 June 2013, 10,542 items of non-expendable property held by missions, valued at $95.74 million, had not been used for more than one year since they had been acquired by the missions. A list of such items of non-expendable property along with their corresponding values, provided to the Advisory Committee by the representatives of the Secretary-General upon enquiry, is contained in the annex to the present report. It is indicated in the Board's report that non-expendable property worth $14.65 million had passed its life expectancy, and $3.13 million worth of property was in bad condition.

26. The Advisory Committee was informed, upon enquiry, that the assets in question had not been used for more than one year since they had arrived in the peacekeeping missions; the majority of the items had actually been transferred from liquidating missions after years of intensive use. The Committee was further informed that the assets considered to be in bad condition in the Galileo Inventory Management System were reflected at cost, and not at their depreciated value, and thus did not represent the true value of the potential loss to the Organization, which would be significantly lower.

27. The Advisory Committee notes that the unused non-expendable property includes items of considerable value, such as prefabricated buildings ($41.9 million); generator sets ($8.3 million); water equipment ($5.4 million); vehicles of several categories — armoured, engineering, ambulance and heavy goods ($4.1 million); and computers ($869,060). **The Advisory Committee is of the view that unused non-expendable property of significant value held by the peacekeeping missions, some of which is considered to be a loss or waste, continues to indicate deficiencies in the asset management of peacekeeping missions. The Committee concurs with the Board's recommendation that the Administration should: (a) hold mission management accountable for checking stock levels before undertaking any acquisition activity; and (b) make the Global Service Centre responsible for monitoring missions' key performance indicators to ensure compliance with established asset management policies.**

28. With respect to the management of sensitive military equipment, the Board notes deficiencies, such as inadequate tracking of the inventory of firearms and insufficient internal control over their storage in some of the peacekeeping missions. The Advisory Committee was informed, upon enquiry, that the specific findings of

the Board of Auditors were communicated to the missions, and all the deficiencies in the management and storage of weapons and ammunition identified by the Board of Auditors were addressed. The Committee was further informed of the specific measures taken in this regard, such as having discussions with the Department of Safety and Security to include the management and maintenance of the global inventory of weapons and ammunition in Umoja, and organizing three global video conferences in January 2014, highlighting, inter alia, the management and storage of weapons and ammunition. **The Advisory Committee notes with concern the improper management and storage of sensitive military equipment at some of the peacekeeping missions, and trusts that particular caution will be exercised in this regard, in view of the risks associated with such assets. The Committee further trusts that Headquarters will ensure appropriate monitoring and oversight concerning the management and storage of weapons and ammunition in the peacekeeping missions.**

Write-off of cash and accounts receivable

29. In paragraph 211 of its report, the Board indicates that in the financial period 2012/13, losses amounting to $12,927,004.31 ($178,034.41 in 2011/12) were written off by the Administration in respect of cash and accounts receivable, because they were considered irrecoverable. In the context of its consideration of the Secretary-General's report on the overview of the financing of the United Nations peacekeeping operations (A/68/731), the Advisory Committee was informed, upon enquiry, that the increase in the number of write-offs of losses during 2012/13 was due, in a large measure, to the implementation of IPSAS. The Committee was further informed that the preparation for the implementation of IPSAS included a rigorous counting of property and equipment as well as expediting outstanding cases pending write-offs. Reporting of account receivables at fair value required under IPSAS, compared to the higher original value required under United Nations system accounting standards, further contributed to the one-time increase in the amounts written off.

30. The detailed information on write-offs of cash and accounts receivable during the financial period 2012/13, provided to the Advisory Committee upon enquiry, indicates that that figure included an amount of $10,785,850 that was receivable from either host governments or public sector entities. The details further indicate instances in which the Administration's failure to receive VAT reimbursements resulted from claims being submitted either beyond the prescribed time limit or without sufficient documentation substantiating the claims. **The Advisory Committee notes with concern instances of insufficient follow-up for outstanding receivable balances. The Committee is of the view that the Secretary-General should, in the future, make sustained efforts to recover cash and accounts receivable in a timely manner before proceeding with any action for write-off.**

Construction project management

31. In paragraphs 124 to 127 of its report, the Board notes specific weaknesses in the management of construction projects by field missions, which include: (a) insufficient preliminary assessments of construction projects; (b) inadequate control over project execution; and (c) deficient governance and monitoring by Headquarters. **The Advisory Committee concurs with the Board's**

recommendation that the Administration: (a) expedite the promulgation of governance guidelines for major construction projects; and (b) obtain timely status reports on projects in missions to facilitate effective project monitoring and intervention. The Committee will comment further on management of field construction projects in its report on cross-cutting issues related to peacekeeping operations (A/68/782).

F. Implementation of the recommendations of the Board of Auditors

32. The Board notes, in paragraph 8 of its report, that of the 69 recommendations made for 2011/12, 38 (55 per cent) were fully implemented, 27 (40 per cent) were partially implemented, 1 (1 per cent) was not implemented and 3 (4 per cent) were overtaken by events in the period under review. That implementation rate shows an increase in the recommendations fully implemented compared to the previous year (2010/11), when 45 per cent of the recommendations were fully implemented. The Board further notes improved monitoring of the implementation of its recommendations resulting from the establishment of a dedicated capacity or compliance units at missions. **The Advisory Committee commends the efforts made by the peacekeeping missions in making the improvements indicated by the Board and trusts that these will be sustained in future periods.**

33. In paragraph 7 of his report on the implementation of the recommendations of the Board for the period ended 30 June 2013 (A/68/751), the Secretary-General indicates that of the 65 recommendations issued by the Board, 14 have been implemented and 51 are in progress; of the 51 recommendations in progress, 37 are targeted for implementation before the end of 2014, 10 are due for implementation in 2015, and 4 recommendations for which no target dates have been set pertain to ongoing activities. The Advisory Committee was informed that the Administration has concurred with the Board's recommendations for the period 2012/13 and that the Administration provided additional explanations, where appropriate, in particular in paragraphs 24 and 39 of the report (A/68/751). The Advisory Committee notes that notwithstanding the Administration's concurrence with the Board's recommendations, in some instances the implementable actions were not exactly in conformity with the Board's views, as indicated in paragraph 24 of the Secretary-General's report and paragraph 71 of the Board's report. **The Advisory Committee trusts that the Board and the Administration will continue to work jointly towards finding solutions in cases in which the Board and the Administration do not necessarily agree over the implementable actions.**

Observations of the Board on the transfer of posts to the Regional Service Centre

34. The Advisory Committee recalls that in the previous report of the Board (see A/67/5 (Vol. II), chap. II, para. 202) regarding the transfer of posts to the Regional Service Centre in Entebbe, Uganda, the Board had specifically recommended that the Administration ensure that the General Assembly's approval be sought prior to any transfer of functions/posts to the Global Service Centre or the Regional Service Centre. In that audit, the Board took the view that the transfer of posts was included in each client mission's budget proposal, and would thus require prior General Assembly approval, a view the Administration agreed with at the time.

35. In the course of its most recent audit, the Board notes that the Administration stated that the Regional Service Centre was established to serve its client missions, and that Entebbe should thus be considered to be within the mission area of those peacekeeping missions. The Board further notes its agreement with the Administration's views that, given that the Regional Service Centre was funded by client missions and its staff was provided by client missions, transferring posts from the missions to the Centre did not have material financial implications.

36. **The Advisory Committee concurs with the Board's prior view, contained in paragraph 202 of its report (A/67/5 (Vol. II), chap. II), that the Administration should ensure that the General Assembly's approval be sought prior to any transfer of functions/posts to the Global Service Centre or the Regional Service Centre.** The Committee will comment further on the transfer of posts to the Regional Service Centre in its report on cross-cutting issues related to peacekeeping operations (A/68/782).

Annex

Non-expendable property held by missions for more than one year as at the end of financial period 2012/13

Commodity group	*Number of items*	*Purchase cost (United States dollars)*
Accommodation equipment	43	296 104
Air conditioner	18	38 427
Airfield support equipment	38	1 837 818
Ambulance	1	37 352
Bridge equipment	12	1 289 609
Broadcast equipment	34	264 789
Bus	3	242 163
Computer	491	869 060
Computer ancillary equipment	2	4 508
Construction equipment	62	546 914
Consultation equipment	55	75 658
Dental equipment	9	60 408
Electrical equipment	383	1 571 985
Emergency equipment	85	266 284
Engineering vehicles	12	659 467
Environmental equipment	30	367 082
Four-wheel-drive on-off road (including 1 armoured vehicle)	100	2 119 573
Fuel equipment	132	808 412
Generator sets	381	8 373 707
HF equipment	189	543 674
Hospital equipment	8	13 614
Household appliances	104	541 946
Identification systems	16	55 383
Installation equipment and accessories	31	228 869
Kitchen equipment	265	837 867
Laboratory equipment	46	295 108
Link equipment	80	547 960
Machinery, special purpose and other equipment and parts therefor	36	223 914
Material-handling equipment	9	677 814
Measuring, checking and testing instruments and appliances	18	108 355
Military equipment	22	57 590

Commodity group	*Number of items*	*Purchase cost (United States dollars)*
Miscellaneous equipment	26	130 007
Monitors	11	8 508
Network equipment	282	2 141 246
Observation equipment	262	616 282
Office equipment	40	128 021
Office furniture	18	74 985
Operating equipment	22	184 202
Patient-monitoring equipment	40	126 065
Peripherals	83	274 783
Photographic equipment	16	61 376
Power supply	57	148 248
Prefabricated buildings	3 300	41 986 582
Printers	36	75 319
Pumping equipment	433	1 738 369
Radio and television receivers, recording, reproduction equipment	4	66 163
Radiography equipment	11	371 267
Recreation equipment	60	203 013
Refrigeration equipment	172	1 040 679
Satellite equipment	170	1 800 355
Sea containers	855	2 445 521
Security and safety equipment	375	607 543
Security equipment	119	573 975
Sewage equipment	62	868 840
Sterilization equipment	7	51 597
Storage units and storage media for electronic data-processing equipment	27	521 462
Surveying equipment	8	67 255
Telephone equipment	56	4 866 032
Tentage	66	105 270
Test and workshop equipment	38	340 270
Tools	9	27 708
Tools and equipment	4	10 142
Tools, lifting	4	8 080
Tools, metal working	8	22 000
Tools, meters/diagnostic	8	21 406

Commodity group	*Number of items*	*Purchase cost (United States dollars)*
Tools, specialized	1	2 028
Tools, welding equipment	21	133 645
Tools, wheel service	2	5 119
Tools, workshop	180	923 847
Trailers	37	430 737
Training tools	13	58 250
Trucks	13	1 280 676
Vehicle attachments	45	669 088
VHF/UHF equipment	210	1 123 065
Video and audio equipment	9	25 818
Water equipment	597	5 469 941
Weapons	10	40 059
Total	**10 542**	**95 736 255**